Senate Committee on Health, Human Services, Insurance, and Job Creation

Support for SB 259

January 17, 2008

Dear Committee Members:

We were invited to share testimony in favor of the provision of this bill relating to insurance rates and credit scores.

We have been doing battle with several insurance companies for several years, since we paid off our mortgage. Because we now have little debt, our "credit score" and "insurance score" are lower than when we owed more money. This has resulted in an increase in our property/casualty premiums, about 10-15% more depending on the company. Our net worth is over $ 2 million, income over $ 100,000, we've never paid a bill even one day late, have totally clean driving records and have not filed any insurance claims or had claims made against us. We have a single high limit credit card paid in full each month, and a home equity line of credit. However we are paying more for our property/casualty insurance because we have only "one open credit line" (which is incorrect but not all creditors report to the credit bureaus) and my spouse had "no open credit lines before age 25," more than 20 years ago! Even people who file bankruptcy or are foreclosed aren't punished for 20 years.

The insurance industry (and I was an insurance underwriter for 32 years) claims their insurance score models show "correlation" between such independent and unrelated factors as "one open credit line" and "no open credit line before age 25" with the increased likelihood that a claim will be filed. Unfortunately, they cannot prove the causality of this contention, i.e. that these disparate factors cause increased claims, just a "correlation." My contention is that unless they can prove causality, that correlations can be made between many disparate factors that have no relation to each other. For example, a "correlation" could be made between eating cheese and the Packers winning the Superbowl. But one does not cause the other.

If you "google" causality versus correlation, you will find that the confusion between the two concepts is one of the biggest logical fallacies out there. And from my years as an insurance underwriter, I know that many insurance company practices and rates are set by individuals who are not particularly well equipped to develop rates with validity and intellectual rigor. I have seen rates developed using nothing more than personal prejudices, and anecdotal information. Using credit and insurance scoring is *just an easy "out," a way to set rates without doing the research and claiming rates are set using valid practices. Fair Isaac is making a fortune off insurance companies that pay them for their models, because it's the easy way to do business, not the right way. And if insurance companies continue to favor their traditional practices, their experience will be a self fulfilling prophecy—they will continue to insure the same group of people at the same rates, and continue to have the same claims experience as ever before, thus providing fodder for their claims that there is "correlation." Who knows what their experience would be if they actually looked at individual risks, insuring better quality risks, leaving out the "insurance score?"*

It's about time that Wisconsin residents were not subject to these unsupportable, discriminatory practices, since the practice hurts people at both the low income and high income levels, hurts retirees who have paid off debt, hurts people who limit their open credit lines to avoid the risk of identity theft, hurts people who are conservative and responsible in their spending and credit use, as are many people in Wisconsin. It hurts Democrats, Republicans and independents alike. If you pay your bills on time and refuse to keep open excess credit lines, it will hurt you too.

Please consider this when making your decision about the provision related to credit scoring in SB 259. Thank you.

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